

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF GAS AND ELECTRIC)	
RATES OF THE UNION LIGHT, HEAT &)	CASE NO. 90-041
POWER COMPANY)	

O R D E R

On July 26, 1991, The Union, Heat & Power Company ("ULH&P") filed a petition requesting the Commission to enter an Order nunc pro tunc modifying the July 19, 1991 Order granting on rehearing an increase in revenue requirements of \$82,843. Specifically, ULH&P alleges that the July 19, 1991 Order contains two errors: (1) the rates contained in Appendix A to that Order produce additional revenues of only \$49,643, a shortfall of \$33,200 from the revenue requirements found reasonable by the Commission; (2) the Commission's decision to increase ULH&P's rate base to include Cincinnati Gas and Electric Company's ("CG&E") share of the propane inventory necessitates increasing ULH&P's revenue requirements by an additional \$379,406.

The rates set forth in Appendix A to the Commission's July 19, 1991 Order were intended to produce the additional revenue requirements of \$82,843 granted therein, plus the \$103,461 cost for safety inspections which were eliminated as a direct charge to customers. The authorized increases in the RS and GS rates were calculated in two steps. The first step reflected the increased revenue requirement of \$82,843 and was allocated between RS and GS

in the same manner as the increase of \$5,798,200 granted in the Commission's October 2, 1990 Order. This step resulted in commodity rates per CCF of 18.533 cents and 16.693 cents, respectively, for the RS and GS rate schedules. The second step reflected an increase of .094 cents per CCF for both the RS and GS commodity rates to recover ULH&P's costs for safety inspections.¹ This step resulted in commodity rates per CCF of 18.627 cents and 16.787 cents, respectively, for the RS and GS rate schedules.

Rounded to two decimal places, ULH&P's revised rates should have been 18.63 cents - RS and 16.79 cents - GS. While Appendix A properly stated the RS rate at 18.63 cents, it inadvertently stated the GS rate, after rounding, at 16.69 cents - an amount which reflects only the first step of the two-step calculation. To correct this error, the 16.693 cents per CCF must be increased by .094 cents per CCF to produce the correct GS rate of 16.79 cents per CCF.

On the propane inventory issue, ULH&P claims that in Appendix B of the July 19, 1991 Order the Commission determined the additional revenue requirement to be \$379,406. ULH&P states that without this correction it will not have the opportunity to earn the 11.17 percent rate of return on rate base found reasonable in the Commission's October 2, 1990 Order. ULH&P notes that the July 19, 1991 Order reduced the rate of return on rate base to 11.05 percent. ULH&P states that this figure is incorrect and should be

¹ Case No. 90-041, An Adjustment of Gas and Electric Rates of The Union Light, Heat and Power Company, Order dated July 19, 1991, pages 9-11.

10.89 percent; further, that the authorized rate of return was not an issue on rehearing.

In the October 2, 1990 Order, the Commission found that an overall cost of capital of 11.25 percent was fair, just, and reasonable; this rate of return on capital produced a 11.17 percent rate of return on rate base. Further, the Commission stated that it "[h]as determined that ULH&P needs additional annual operating income of \$7,338,275 to produce a rate of return of 13.00 percent on common equity based on the adjusted historical test year."² Therefore, it should be apparent that the calculation of revenue requirements of ULH&P was determined by applying the authorized overall cost of capital to test-year-end capitalization, not by applying the rate of return to rate base. The authorized return on capital produced a reasonable return on rate base; however, the return on rate base was not the overriding factor in determining the revenue requirements.

In the October 2, 1990 Order, the Commission determined that ULH&P's rate base was \$141,580,147,³ which included a negative adjustment to the propane inventory assigned to CG&E in the amount of \$1,583,150.⁴ This adjustment was only made in the determination of ULH&P's rate base; no corresponding adjustment was made to reduce capitalization. ULH&P did not identify as a

² Commission's October 2, 1990 Order, pages 46 and 47.

³ Id., page 13.

⁴ Id., page 7.

rehearing issue the Commission's omission of a concurrent adjustment to reduce capitalization. Consequently, the merits of such an adjustment to capitalization was not an issue in the rehearing proceeding.

In the July 19, 1991 Order, the Commission found it appropriate to restore the CG&E share of the propane inventory to ULH&P's rate base, resulting in a rate base of \$143,163,297.⁵ No corresponding adjustment was made to capitalization, because as previously mentioned, the original Order did not reduce capitalization for the propane inventory. Thus, ULH&P was actually granted a return on the capital invested in the propane inventory in the original Order even though the propane inventory had been excluded from rate base. Consequently, the Commission finds that no further adjustments to ULH&P's revenue requirements are necessary due to the restoration of CG&E's share of the propane inventory to ULH&P's rate base.

Apparently, ULH&P has misinterpreted the purpose of Appendix B of the July 19, 1991 Order. Appendix B presents the determination of the \$82,843 net increase in revenue requirements granted to ULH&P. The \$379,406 figure represents the normalized revenues to be received from CG&E, not the additional revenue requirements resulting from the inclusion of the CG&E propane inventory in rate base.

The restoration of the CG&E share of the propane inventory resulted in an increase in the amount of the rate base. The rate

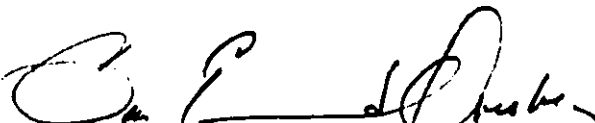
⁵ \$141,580,147 + \$1,583,150.

of return on rate base of 11.05 percent stated in the July 19, 1991 Order represents the rate of return on the total rate base of ULH&P. ULH&P is correct that the rate of return on the gas rate base is 10.89 percent. However, the rate of return on capitalization, the overall cost of capital, remained at 11.25 percent.

IT IS THEREFORE ORDERED that ULH&P's petition for an Order nunc pro tunc be and it hereby is granted to the extent that the base rate commodity charge for Rate GS set forth in Appendix A to the July 19, 1991 Order is increased to 16.79 cents per CCF to recover the cost of gas inspections.

Done at Frankfort, Kentucky, this 2nd day of August, 1991.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

Commissioner

ATTEST:


Executive Director